Annual Report

1999

A·L·VAN HOUTTE

A COFFEE EXPERIENCE

80 YEARS
OF EXCELLENCE AND INNOVATION IN THE GOURMET COFFEE INDUSTRY

STOCK MARKET INFORMATION

Listing
Montreal Exchange, August 1987
Toronto Stock Exchange, September 1995

Inclusion in TSE 300
"Food Processing" Category, February 1998

Ticker symbol
VH / ME, TSE

Number of voting, participating shares outstanding
21,624,526

Public float
15,824,526 subordinate voting shares

High/low of subordinate voting shares over past fiscal year
$31.75/$25.75

Trading volume (Montreal Exchange and Toronto Stock Exchange)
3,705,145

Recent price (June 30, 1999)
$25.00

PROFILE

Founded in 1919, A.L. Van Houtte is one of the largest, best integrated and most profitable companies in the North American gourmet coffee industry.

With a staff complement of 1,200, Van Houtte operates two complementary business groups that together enable consumers to share its passion for coffee in the office, at home, at the restaurant, and in foodservice outlets. These groups work in synergy to develop and market value-added concepts combining gourmet coffees, state-of-the-art technologies and expertise in service.

COFFEE SERVICES AND MANUFACTURE OF EQUIPMENT

Selena Coffee
- Filterfresh

Red Carpet

VKI Technologies

In addition to being the most important supplier of traditional coffee services in Canada, Van Houtte operates the largest single-cup coffee service network in North America. Through a subsidiary, the Company designs and manufactures sophisticated single-cup brewing equipment providing superior-quality coffee, available at any time.

- a network of 61 corporate outlets and 36 franchises, established across Canada and in 27 American states
- a total of 25,680 corporate single-cup units across the continent, in addition to the 15,000 units operated by franchisees in the United States
- over 2 million consumers served daily in the workplace and institutional settings: offices, industries, hospitals, educational institutions, etc.

ROASTING AND MARKETING OF GOURMET COFFEES

Coffee Group
- Café-Bistro Division

Van Houtte is the largest gourmet coffee marketing organization in Canada, and the only one to operate from coast to coast. Aside from coffee services, the Company serves all the main segments of the retail food industry: grocery stores, superstores, convenience stores, restaurants, pharmacies, etc. A pioneer in this field, Van Houtte also has the largest café-bistro network in Quebec.

- over 2,000 supermarkets serviced across Canada, along with thousands of convenience stores, restaurants and other retail outlets
- the broadest selection of gourmet coffee beans and ground coffees in the country
- a state-of-the-art infrastructure, including the only profiled roasting system in Canada
- 57 franchised and 16 corporate café-bistros in Quebec

FINANCIAL HIGHLIGHTS

Fiscal years ended (in thousands of dollars, except number of shares, per-share amounts, percentages and ratios)	April 3, 1999	March 28, 1998	March 29, 1997	March 30, 1996	April 1, 1995	April 2, 1994	Annual growth rate
Financial Performance							
Operating revenues	**$234,614**	$207,067	$170,717	$164,102	$131,490	$44,525	39.4%
EBITDA[1]	**49,002**	40,410	35,627	31,432	25,215	11,040	34.7%
Net earnings	**17,030**	13,952	10,331	8,531	6,676	4,011	33.5%
• per share (basic)	**0.79**	0.71	0.58	0.47	0.40	0.34	18.4%
• per share (fully diluted)	**0.79**	0.68	0.54	0.46	0.39	0.34	18.4%
Cash flow	**37,449**	30,512	25,056	22,253	18,259	8,203	35.5%
• per share (basic)	**1.73**	1.58	1.52	1.35	1.17	0.69	20.2%
• per share (fully diluted)	**1.68**	1.48	1.32	1.19	1.06	0.69	19.5%
Purchase of fixed assets	**29,878**	23,045	15,610	16,103	9,175	3,015	
Business acquisitions	**13,188**	43,058	5,638	2,700	61,779	6,739	
Dividends	**3,027**	1,936	1,405	1,320	1,234	778	31.2%
• per share	**0.14**	0.10	0.085	0.08	0.075	0.07	14.9%
Number of shares outstanding	**21,624,526**	21,585,026	16,541,476	16,524,118	16,503,952	13,314,490	
Market capitalization	**621,705**	663,740	264,706	181,591	146,062	85,745	48.6%
Financial Position							
Total assets	**$233,495**	$206,480	$147,936	$137,349	$133,675	$52,917	
Shareholders' equity	**180,210**	165,948	100,309	90,767	82,959	42,592	
Total net indebtedness[2]	**23,136**	7,068	19,193	25,081	27,770	2,703	
• % of total invested capital	**11.4%**	4.1%	16.1%	21.6%	25.1%	6.0%	
Additional Information							
Sales							
Coffee services Filterfresh (US$)	**$63,509**	$61,429	$55,505	$47,926	$34,160	N.A.	16.8%
System-wide sales – Van Houtte organization[3]	**327,728**	310,252	273,064	260,058	213,721	77,087	33.6%

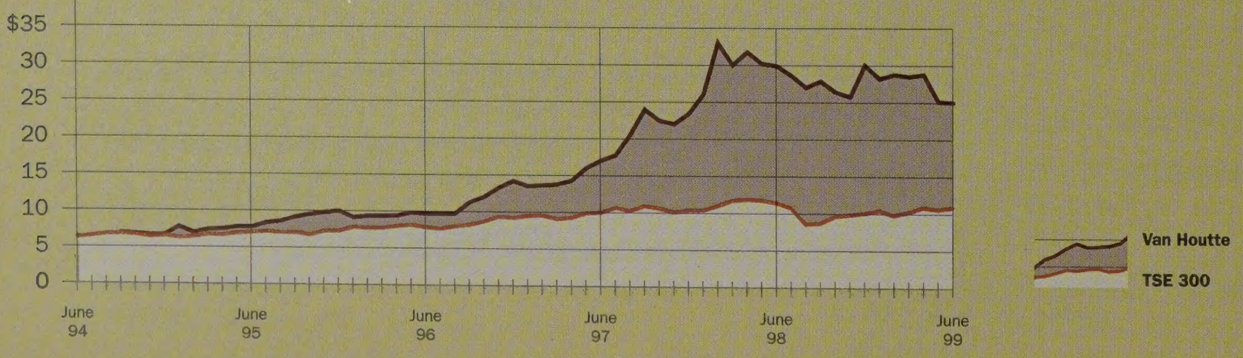
[1] Earnings before depreciation, amortization, financial expenses, income taxes, as well as equity in earnings of companies subject to significant influence and non-controlling interest

[2] Including long-term debt, the liability component of the convertible debentures (before 1998), the current portion of debt and debentures and bank loans, net of available cash

[3] Combining revenues of the Company and the franchise networks

Stock Market Performance

VH vs TSE 300
From June 1994 to June 1999



Note: On September 22, 1997, the Company proceeded with a two-for-one split of all its subordinate voting shares and multiple voting shares issued and outstanding; the share price for prior years reflects this stock split.

MESSAGE TO SHAREHOLDERS

Van Houtte recorded another excellent fiscal year in 1998-1999, pursuing its expansion across North America.

In our two business sectors, the past year also saw the implementation of a marketing strategy tightly focused on customer satisfaction and aimed directly at end-users of our products and services.

We closed fiscal 1999 with net earnings of $17 million, up 22% over the prior year. Earnings per share rose 16.2% to $0.79, compared with $0.68 on a fully diluted basis in 1998. Once again, Van Houtte achieved and even slightly exceeded its commitment to shareholders to increase its fully diluted earnings per share by at least 15% annually. Cash flow rose 23% to stand at $37.4 million, giving us further leverage to build the Company's future growth.

Last year's results reflect sustained and balanced development within our two major growth sectors. The number of single-cup units operated by our corporate coffee services rose 15% across North America, while the Coffee Group increased its coffee shipments by 17%. We owe this performance to a combination of internal growth and strategic investments, to which we allocated a total of $43 million in 1998-1999, including $30 million in new fixed assets and $13 million in business acquisitions.

For the coffee service and equipment manufacturing sector, the past fiscal year was highlighted by innovation and internal development.

Van Houtte also continued to expand through acquisitions and business start-ups, the largest of which were in Pittsburgh, Cincinnati, Minneapolis, Saskatoon and Fredericton. However, the growth in our single-cup equipment base was mainly attributable to the placement of new units, whose total number had risen to almost 26,000 by year-end. Factors contributing to this performance included our Single-Cup Sales Academy, inaugurated in Boston in October 1998 to increase the productivity of Selena Coffee, Red Carpet and Filterfresh representatives in the placement of equipment. In addition, we launched a new compact single-cup model in Canada, the "Barista Express", designed for groups who drink 20 to 40 cups of coffee daily. With this innovation, we literally created a new market for our single-cup technology, whose potential can be measured in hundreds of thousands of businesses in Canada alone.

In the gourmet coffee marketing sector, Van Houtte became a truly national company last year, moving into the No. 1 position in the Canadian gourmet coffee market.

Thanks to the solid relationships it has forged with major national chains in the retail food industry, our Coffee Group was able to take advantage of industry consolidation by implementing its concepts in hundreds of new sales outlets in Ontario and the Atlantic Provinces. In September 1998, it extended its reach from coast to coast by acquiring Vancouver-based Gold Cup Coffee Company Ltd., the second largest gourmet coffee distributor in Western Canada. In Quebec, the last fiscal year saw the implementation of a major repositioning program for our café-bistros. In addition to the introduction of a new concept, we streamlined the network considerably. Considering the positive impact the concept has had on the renovated café-bistros, we believe we have developed a winning formula. We therefore intend to speed up the modernization process in the coming years.

As we are updating our strategic plan for the years ahead, our primary goal remains the same: maximize our shareholders' long-term value through profitable growth and strategic investments.

Therefore, we maintain our commitment to increase fully diluted earnings per share by 15% annually. As in the past, we will do so by focusing our efforts on our two major strategic avenues, through internal development and acquisitions alike. With a comfortable debt level and available credit facilities of $47.6 million, Van Houtte is in an excellent financial position to remain on course.

First, we intend to further penetrate the single-cup segment, while continuing to efficiently serve our traditional coffee service markets.

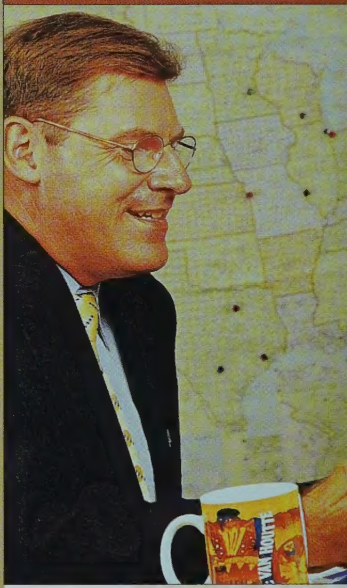
Aside from internal development, Selena Coffee and Red Carpet will continue to look for consolidation opportunities in the Canadian market, a role they have successfully performed up to now, with some 50 acquisitions in less than 10 years. In early July 1999, they completed another major acquisition that made Van Houtte the leading player in the coffee service industry in the Greater Toronto area.

However, our development in the United States will remain Van Houtte's principal source of long-term growth. Even though we have made considerable progress since 1994, increasing the number of our corporate U.S. outlets from 3 to 15, we have so far barely scratched the surface of this market's tremendous potential. Consistent with its strategy of teaming up with the most dynamic franchisees in its network to accelerate its

Two strategic avenues, two sources of growth and profitability

Expansion of single-cup coffee services throughout North America:
15% growth in the number of corporate-owned equipment

Marketing of gourmet coffees across Canada:
17% growth in the Coffee Group's shipments



Gérard Geoffrion
Executive Vice-President

growth, Filterfresh will strive to optimize its current network of corporate outlets and open up new territories through joint ventures and franchises. The northwestern U.S. market will be developed by Red Carpet, which has already established three outlets in Seattle, Portland and recently in Minneapolis.

Second, now that it has extended its reach nationwide, the Coffee Group will seek to broaden its coverage of the Canadian market.

Additionally, it will use the exceptional quality and variety of its product selection to introduce its branded products in major grocery chains, which it will also supply with private-label gourmet coffees. Although Van Houtte's growth in this sector will stem primarily from markets outside Quebec, we nonetheless remain on the lookout for expansion opportunities in our original market. In fact, we did so following our last fiscal year-end when we acquired the gourmet coffee roaster Gérard Van Houtte Inc., thereby gaining total control of the "Van Houtte" brand name. Finally, we will pursue the café-bistro modernization program in order to support the key role that this network has always played in promoting our brand equity in Quebec.

And throughout our organization, we will give even greater scope to value-added operations that will contribute to raise Van Houtte's profile among North American consumers and strengthen our partnerships with customers.

In conclusion, I would like to congratulate Van Houtte's senior management, employees and franchisees for the determination and talent they dedicate to achieving our growth and profit objectives. To all of you, Van Houtte shareholders, I reiterate our commitment to enhance the value of your investment. Thank you for sharing our trust in the Company's future. Finally, I would like to underscore the sustained contribution of our Board members to the safeguarding of the Company's interests and to the development and fulfilment of its vision of the future.

Paul-André Guillotte
President and Chief Executive Officer

July 1999

Paul-André Guillotte
President and
Chief Executive Officer

THE LARGEST SINGLE-CUP COFFEE SERVICE ORGANIZATION IN NORTH AMERICA

Every day, more than two million consumers across Canada and in 27 American states use the coffee services provided by Selena Coffee, Red Carpet or Filterfresh. A growing number of them have the advantage of being able to obtain a freshly brewed cup of coffee at any time, further enhancing the pleasure of enjoying superior-quality coffee in their workplace.

In fact, Van Houtte literally transformed the coffee service industry by being the first to systematically develop the potential of single-cup brewing technology. Since 1994, we have more than quadrupled our base of single-cup equipment, which is unparalleled in North America: 25,680 units across the continent at the end of the last fiscal year, in addition to the 15,000 more operated by our franchisees in the United States.

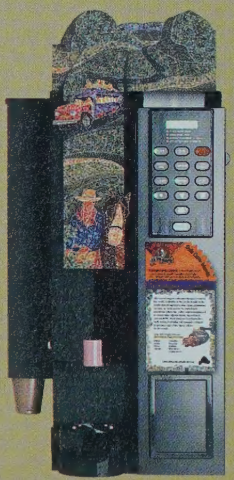
BARISTA EXPRESS

The world's only compact model capable of brewing fresh coffee one cup at a time

A first in the coffee service industry:
CAFFE MONDO... the world of coffee

AMAZONIA

An extended coffee voyage



AROMA SUPREMO

The coffee of Colombia

AWASA

The discovery of coffee

CRISTÓBAL

Blends for every taste

EL DORADO, GUATEMALA

A wealth of legends and flavours

Visit the Caffe Mondo Web site at
www.caffemondo.alvanhoutte.com

Van Houtte benefits from a unique position to invest in large-scale concepts, especially since it can control all the ingredients...

... from the design and manufacture of equipment to the roasting of gourmet coffees, not to mention the largest sales force in the North American coffee service industry.

In taking up the technological challenge of the Barista Express, VKI Technologies once again confirmed its lead by offering a whole new base of consumers the chance to enjoy the advantages of single-cup technology. In fact, there are hundreds of thousands of businesses in Canada alone whose size is suited to the use of the Barista Express.

CAFFE MONDO is

- a trip around the world through the sampling of 10 exclusive international coffees developed by our master roaster;
- a source of cultural information on the origins and distinctive features of the world's best coffees;
- an exciting experience of discovery, which lovers of good coffee can enjoy in the workplace.

It is also the expression of our determination to offer added value to our customers, increase coffee consumption and promote Van Houtte's brand image throughout North America.

CAFFE EUROPA
The most European of coffees

MACHU PICCHU
Take a break... and savour

TAJ MAHAL
India: Multifaceted country, unique coffee

FRENCH ROAST
The coffees of Paris

OPERATIONAL REVIEW

COFFEE SERVICES AND MANUFACTURE OF EQUIPMENT

Fiscal 1998-1999 was a year of continuity and, in certain respects, renewal for this sector that generated 67% of the Company's revenues and 73% of its operating profits.

Expanding our North American network through the acquisition and start-up of coffee service businesses

Last year, five new corporate outlets were added to our North American network, not to mention the businesses acquired and integrated into the Company's existing operations in Ontario and the Atlantic Provinces. At fiscal year-end, Van Houtte had a total of 61 corporate outlets: 45 in Canada, 15 in the United States and 1 in Europe.

In Canada, we acquired 75% of the shares of the second largest operator of traditional coffee services in Saskatoon, Saskatchewan, thereby continuing to consolidate our leading position in the Western Provinces. In the United States, Filterfresh intensified the partnership approach initiated the previous year by forging alliances with franchisees in order to expand and optimize its network of corporate outlets. For instance, it joined forces with one of its franchisees to establish a joint venture in Pittsburgh, Pennsylvania. The new outlet, which is 90% owned by Filterfresh and 10% owned by its franchised partner, will allow us to develop the potential of this dynamic region south of the Great Lakes, where Van Houtte was not previously present. In April 1999, Filterfresh also acquired 80% of the Cincinnati franchise whose owners, two excellent operators, concurrently acquired minority interests in the Detroit and Cleveland corporate operations. They thereby assumed the management of all three outlets, now combined into a single corporate entity.

In addition, Red Carpet acquired a traditional coffee service operation in Minneapolis, Minnesota, with a large customer base and a solid reputation for the quality of its services. As opposed to Red Carpet's other two U.S. outlets in Seattle, Washington and Portland, Oregon, which were set up in 1997 and 1998 to focus on single-cup technology exclusively, we chose in this case to integrate an existing traditional coffee service clientele to promote the advantages of our single-cup brewing technology. This will give us the opportunity to explore a new alternative that may prove to be more rapid and less costly than start-ups.

While pursuing its expansion program, Van Houtte secured new means to help achieve its leadership objectives in North America.

Ronald W. McArthur
President, Red Carpet

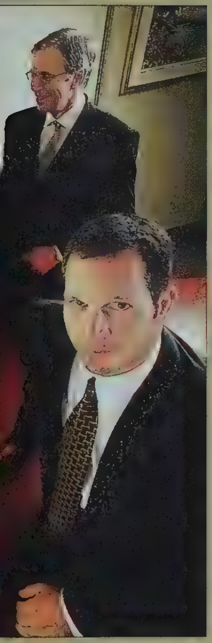
Brian King
President and
Chief Operating Officer, Filterfresh

Michel Ouellet
Vice-President,
Selena Coffee

Stepping up the development of our single-cup equipment base: the spearhead of our expansion strategy in the North American coffee service industry

Aside from the acquisition of $20 million in new fixed assets, last year's 15% increase in the number of single-cup units operated by our corporate networks was fueled by significant achievements in the areas of training and technological development. In October 1998, Van Houtte became the first coffee service organization to set up a training centre specializing in the marketing of single-cup technology: the Single-Cup Sales Academy, located in Westwood, on the outskirts of Boston. Since its inauguration, this centre has trained some 40 representatives from the corporate networks of Selena Coffee, Red Carpet and Filterfresh, as well as several Filterfresh franchisees. To date, this initiative has produced very good results, not only by contributing to the expansion of our equipment base, but also by improving the representatives' productivity in identifying sites with the greatest potential, reducing costs related to the placement of new units and maximizing their profitability.

Van Houtte distinguished itself with another innovation: the development of the Barista Express, the world's first compact equipment capable of brewing fresh coffee one cup at a time. Until now, the size and cost of the single-cup units available on the market meant that their use was reserved for fairly large groups of users. To enable smaller groups of 15 to 30 users to also have access to this technology, VKI Technologies took up the challenge of simplifying and miniaturizing the apparatus in order to lower its costs.

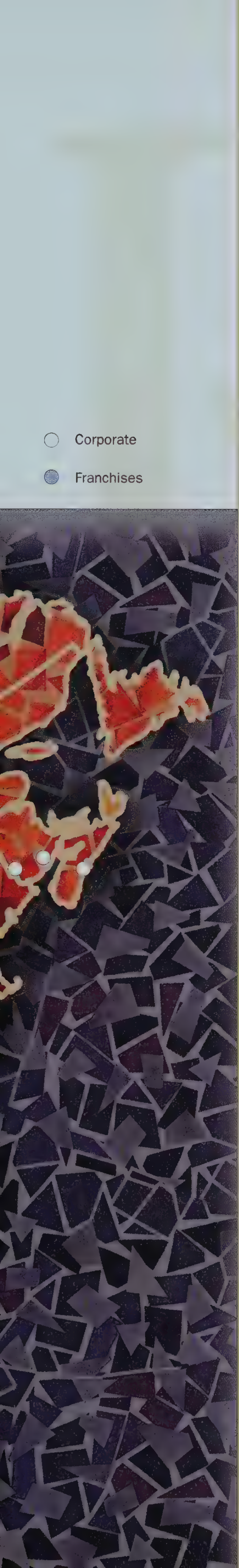


Christian Pouliot
President,
Selena Coffee

Mario Tougas
President,
VKI Technologies

After two years of fine-tuning, the Barista Express was officially launched by Selena Coffee and Red Carpet in September 1998. The goal was to convert existing customers meeting the target profile and currently using conventional coffee-makers, while winning market share over the competition. Thus far, nearly 1,000 Barista Express units have been installed, half of which with existing customers and the other half with new clients. What's more, we have witnessed a significant increase in coffee consumption among our traditional coffee service customers who have chosen to adopt the Barista Express. In light of these highly promising results, VKI is now working on the second generation of the Barista Express, even more attractive and versatile than the first, that will be designed for our entire North American network.

It was also to support Van Houtte's growth in the single-cup segment that VKI completed a major reengineering program at its plant in St-Hubert, near Montreal. In eliminating most of the non-value-added operations from the industrial process, this program significantly increased the plant's operational capacity and flexibility, yielding an improvement of more than 40% in labour productivity over two years. It also shortened the manufacturing cycle considerably.



Enhancing products and services offered to our customers through the development of value-added concepts combining state-of-the-art technology, gourmet coffees and excellence in service

In the last fiscal year, we renewed our commitment and policies with regard to customer service, not only to accelerate the development of new markets, but also to enhance our current customers' satisfaction and loyalty, especially in the single-cup segment.

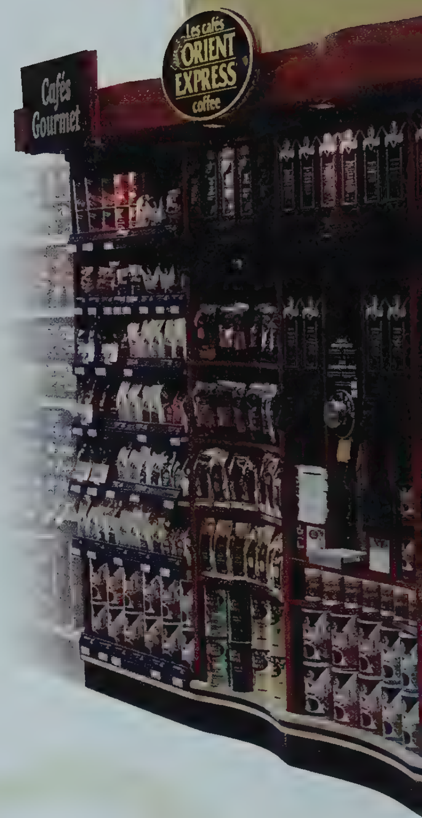
New guidelines were launched in all our subsidiaries to improve every aspect of our offering, from coffee quality to the user-friendliness of our equipment, as well as the professionalism of customer service and follow-up. To make customer satisfaction a core element of their operations, our coffee service subsidiaries undertook to reorganize their sales and customer service activities, hired and trained new resources and improved their information systems. For its part, VKI adopted a better targeted approach toward the end-users of its equipment, among other things by bringing its R&D and marketing departments closer together and creating training programs for equipment caretakers. In so doing, our goal is to meet the expectations of everyone involved in the single-cup chain of influence: those who decide whether to adopt the technology, those who manage and maintain the equipment, and those who will enjoy them.

From the same standpoint, we stepped up the development of new concepts aimed directly at consumers, with a view to offering better value to our coffee service customers, increasing coffee consumption per unit and promoting Van Houtte's products and brand image. The Caffe Mondo program is one of the results of our efforts. With this evolving concept, the outcome of two years of research and development, our single-cup equipment becomes much more than a commodity, but a happening based on a true coffee experience.

Caffe Mondo was launched in February 1999 with Red Carpet and Selena Coffee customers using the appropriate equipment. The level of acceptance is such that it has already been adopted by close to 4,000 customers, yielding substantial increases in coffee consumption per unit. In the coming months, we will continue to implement it across Canada and gradually introduce it to Filterfresh's corporate network in the United States.

1919 FROM A COFFEE AND DELICATESSEN STORE IN MONTREAL...

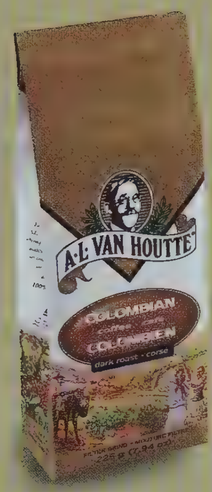
1999 ...TO THE LEADING GOURMET COFFEE MARKETING COMPANY IN CANADA



From its inception, Van Houtte chose to operate in the gourmet coffee market exclusively. Since then, it has acquired a unique position in the Canadian industry, due largely to its ability to meet the needs of consumers and retailers with refined and distinctive concepts. By offering solutions tailored to each of its customers, Van Houtte's Coffee Group has succeeded in efficiently serving all the channels of the retail food sector: grocery stores, superstores, convenience stores, drugstores, restaurants, etc.

One of the most extensive and refined selections of gourmet coffees in North America... so that every coffee lover can find what he or she is looking for.

Our complete range of coffee beans is joined by over 50 packaged products. Van Houtte draws this distinction not only from its tradition of 80 years of excellence in the field, but also from its use of the most modern roasting and packaging technologies. Among other things, the Coffee Group is the only roaster in Canada and one of the few in North America to be equipped with a profile roasting technology offering countless possibilities in terms of variety of coffee blends, quality and consistency.



The finest coffee...
The finest merchandising...
The finest packaging...

Innovative merchandising strategies: a source of growth for our customers

Thanks to the quality and variety of its assortment of gourmet coffees, the size and esthetic appeal of its displays and their optimal use of selling space, the Coffee Group has literally redefined the "coffee category" for supermarket shoppers. In fact its concepts are like boutiques within grocery stores, that usually generate significant increases in its customer's coffee sales. This performance has enabled the Coffee Group to expand its share of the Canadian market every year, with the result that it currently supplies coffee, under its brand names or its customers' private labels, to over 2,000 Canadian supermarkets, half of which are outside Quebec.

Van Houtte's network of café-bistros undergoes a facelift for the next millennium.

An "in" look and ambiance, a resolutely urban cachet with a "New Europe" flavour and an enduring tradition: variety and excellence in the choice of coffee.

ROASTING AND MARKETING OF GOURMET COFFEES

This sector posted an outstanding performance in 1998-1999, increasing its operating income by almost 30%.

Establishing a nationwide presence in the retail food industry

Consistent with its principal objective, the Coffee Group increased its Canadian market share considerably in the last fiscal year. Among other things, it expanded by some 50% its coverage of the Ontario market, where "A.L. Van Houtte" and "Orient Express" concepts are now to be found in more than 300 supermarkets. Within less than two years, the Coffee Group has also become a major player in the Atlantic Provinces. After introducing its concepts to one of the region's leading retailers during the previous year, it gained a second large grocery chain as a customer last year and undertook, with Red Carpet, to supply an important network of convenience stores with liquid coffee.

At the beginning of fiscal 1998-1999, the Coffee Group achieved an initial breakthrough in the Alberta market where it successfully tested its concepts in several supermarkets. But it was the acquisition of Gold Cup Coffee Company a few months later that really launched its expansion west of Ontario. The second largest distributor of gourmet coffee in Western Canada and the leader in the coffee bean segment, Gold Cup serves an extensive customer base in the retail food and foodservice sectors. Its clientele is spread mainly throughout British Columbia and Alberta, but also across Manitoba, Saskatchewan and even Ontario. In addition to a significant contribution to the growth in the Coffee Group's shipments, this acquisition provided us with a well-established distribution network, a skilled, dynamic team and a line of coffee beans that is highly popular among consumers in Western Canada. We undertook to complement this line by introducing "A.L. Van Houtte" packaged coffees alongside "Gold Cup" products.

Positioning ourselves as a front-line partner and a driving force for our customers' growth, through the superiority of our products and services

Aside from the penetration of new points of sale, Van Houtte's growth in the retail food sector is built upon the increase in coffee sales that its concepts usually generate for its customers. In fact, the Coffee Group has developed a product selection unequaled in the industry, that we constantly improve. Thus, in recent years the Coffee Group has entirely renewed its line of packaged coffees, to which other formats and packaging were added in 1998-1999.

Within the space of a few months, Van Houtte achieved some of its medium-term goals by means of acquisitions and internal growth.

Stéphane Breault
President, Café-Bistro Division

Over the past two fiscal years, the Coffee Group has also invested $8 million to increase its production, packaging and warehousing capacity and to refit its facilities with roasting equipment that is unique in Canada, enabling it to enhance its product quality and consistency. In 1998-1999, its industrial process was fully automated, from the reception of green coffee to the packaging of finished products. It also relocated its distribution operations from the roasting plant into a new warehouse, which was expanded from 20,000 to 70,000 square feet for that purpose. This not only increased its storage capacity substantially, but also freed up production space to facilitate its future growth.

Modernizing the café-bistro network so it can continue to make its essential contribution to supporting the "Van Houtte" brand in Quebec

Launched in 1997-1998 by the Café-Bistro Division, the network repositioning and rejuvenation program entered the execution phase in the last fiscal year. After putting an experienced management team in place, we started to implement a new café-bistro concept based on four major elements:

- locations in urban sites with significant pedestrian traffic;
- a visually modern and musical atmosphere, targeting consumers between 20 and 55 years of age;
- an array of coffee products honouring Van Houtte's tradition of excellence; and
- an evolving and enhanced value-added menu selection.

Jean-Yves Monette
President, Coffee Group

First, the location and long-term potential of each café-bistro underwent an in-depth review. This strategic exercise led to the closure or temporary conversion into corporate outlets of several franchises. Then, some 10 corporate and franchised café-bistros were renovated according to the new concept. Along with the complete renovation of these premises, our line of specialty coffees was revamped and several coffees that are exclusive to the network were introduced. We also renewed our pastry and sandwich selection, while adapting our menu to make it both more attractive and user-friendly.

At the same time, we reinforced management practices in order to improve operational quality and profitability. Among other things, food production and distribution were outsourced, and training activities were intensified.

This rejuvenation program has had a significant impact on customer traffic in the café-bistros, some of which have doubled their coffee sales since the implementation of the new concept. Now that we have fine-tuned the formula, we will pick up the renovation pace in the next quarters, while exploring new expansion avenues geared to the marketing of gourmet coffees.

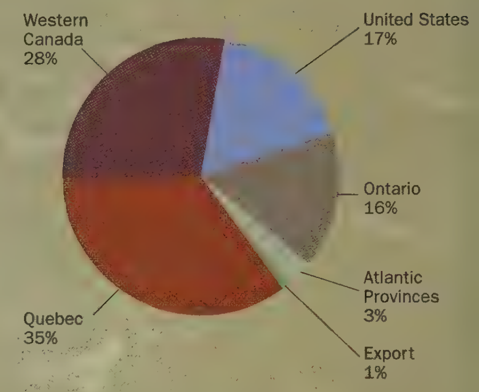
MANAGEMENT'S DISCUSSION AND ANALYSIS

Trend in Operating Revenues

For the fiscal year ended April 3, 1999, Van Houtte recorded sales of $234.6 million, up 13.3% over the previous year. Revenues generated by coffee services and the manufacture of equipment rose 14.3% to $168.2 million, thereby accounting for 67% of the Company's total business volume (before inter-segment eliminations). In addition to the acquisitions made over the past two years, this growth stemmed primarily from the placement of new single-cup corporate equipment, the total number of which increased by 15% to reach 25,680 at year-end. It should be noted that this figure excludes the 650 units that were added to the Filterfresh corporate network upon the acquisition of the Cincinnati franchise on April 3, the very last day of the fiscal year. In the United States, combined sales for Filterfresh's corporate and franchised outlets amounted to US$63.5 million, up 3.4% over the previous year. It should be pointed out that growth was more significant within the corporate network, where the number of single-cup units increased by approximately 20%. Revenues generated by the roasting and marketing of gourmet coffees rose 9.2% to $84.4 million, mainly due to a 17% increase in the Coffee Group's shipments.

For information purposes, combining the sales of the franchised networks with Van Houtte's operating revenues, system-wide sales of our organization totalled Can$328 million in 1999, compared with $310 million for the previous year, an increase of 6%.

Geographic Breakdown of Revenues



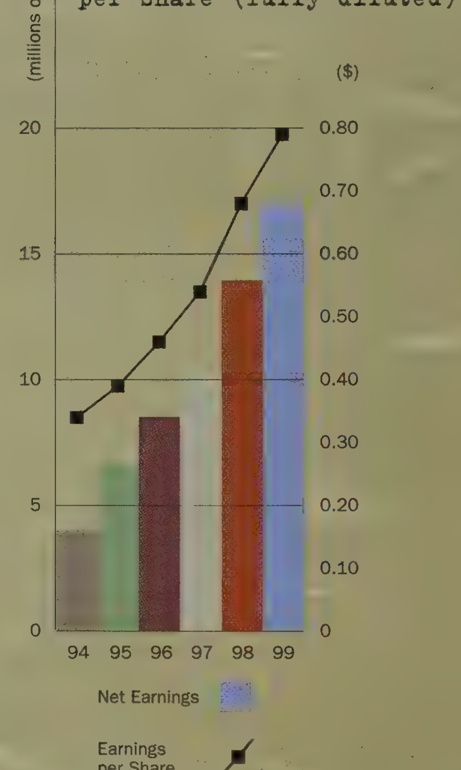
Profitability

Operating income before depreciation, amortization, financial expenses, income taxes and other items (or "EBITDA") rose 21.3%, from $40.4 million in 1998 to $49.0 million in 1999. The coffee service and equipment manufacturing sector accounted for 73% of this amount, its operating income having increased by 19.6% to reach $37.5 million. This performance was attributable to the expansion of our single-cup equipment base, our acquisitions, along with a considerable improvement in VKI Technologies' profitability as a result of the reengineering of its industrial process. The gourmet coffee roasting and marketing sector recorded a 28.2% increase in operating income, which rose to $13.6 million. Aside from the strong growth in the Coffee Group's shipping volume, this sector's profitability was fostered by considerable investments in its production infrastructure over the past two years, as well as Gold Cup Coffee Company's substantial contribution to operating results.

Depreciation and amortization expenses increased by approximately $4 million to stand at $19.7 million, as a result of the expansion strategy carried out over the past two years and the accelerated depreciation of the assets of corporate café-bistros targeted by the modernization program. Financial expenses rose very slightly, from $1.2 million to $1.3 million. Finally, non-controlling interest decreased from $555,000 to about $50,000 due to the purchase, toward the middle of the previous year, of the 49% minority interest in VKI Technologies and Filterfresh Corporation.

After accounting for these items and the slight increase in our effective tax rate, Van Houtte's net earnings grew by 22.1% to total $17,030,000, up from $13,952,000 in 1998. Earnings per share rose 16.2% to $0.79 on a weighted average of 21,617,000 shares outstanding, compared with $0.68 (fully diluted) on 19,279,000 shares the previous year.

Net Earnings and Earnings per Share (fully diluted)



Principal Changes in Financial Position

Combining net earnings of $17 million, depreciation and amortization of nearly $20 million and other items not affecting cash, the Company's cash flow amounted to $37.4 million or $1.68 per share (fully diluted), up 22.7% over the previous year. Of this amount, $7 million was reinvested in working capital, primarily to finance the growth in accounts receivable and inventories related to the expansion of our operations. Operating activities therefore provided net cash resources of $30.4 million in fiscal 1999.

Coupled with a $12.2 million increase in long-term debt in the form of a revolving term loan, these funds were used almost entirely to finance last year's expansion program. Among other things, we invested $29.9 million in new fixed assets ($28.7 million net of disposals of fixed assets). Some $20.4 million of this amount was earmarked for the coffee service and equipment manufacturing

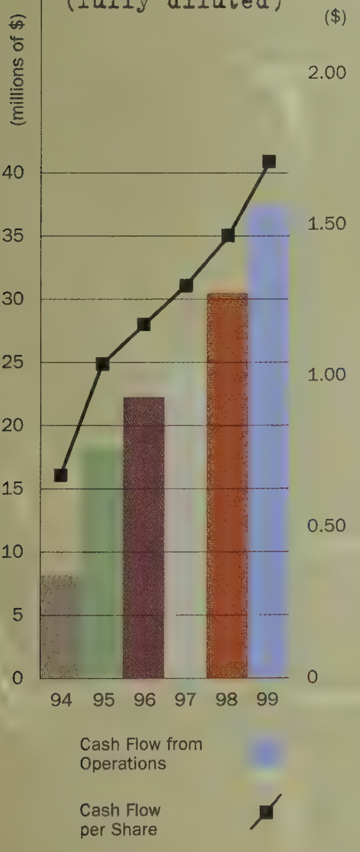
sector, mainly to expand our single-cup equipment base. The balance of $9.5 million was allocated to the gourmet coffee roasting and marketing sector, notably to install displays for several new Canadian customers in the retail food industry, expand the distribution centre and automate the Coffee Group's industrial process.

In addition, we invested $13.2 million in business acquisitions, including the gourmet coffee distributor Gold Cup Coffee Company, 80% of the Filterfresh franchise in Cincinnati, and several traditional coffee service companies, the largest of which were in Minneapolis, Fredericton and Saskatoon. Finally, a total amount of $2.4 million was used to increase other assets and investments in companies subject to significant influence.

Other transactions for fiscal 1999 included the payment of $3.0 million in dividends to holders of subordinate voting shares and multiple voting shares, or $0.14 per share. This reflects a 40% increase over the dividend paid by Van Houtte in 1998. In addition, we issued 39,500 new subordinate shares following the exercise of stock options held by officers, for a consideration of $271,000.

The various cash inflows and outlays described previously used net cash resources of $3.9 million, bringing the Company's cash from $4.7 million at the beginning of the year to $835,000 as at April 3, 1999.

Cash Flow from Operations and Cash Flow per Share (fully diluted)



Financial Position
Van Houtte's total assets amounted to $233.5 million as at April 3, 1999, up 13.1% over the previous year. Working capital increased from $19.0 million for a current ratio of 1.7:1 as at March 28, 1998, to $24.6 million for a ratio of 2.0:1 one year later. With regard to long-term assets, fixed assets rose 16.3% to total $99.0 million at the end of the last fiscal year, while other assets went from $73.3 million to $81.8 million, due primarily to the goodwill resulting from the year's business acquisitions.

After accounting for net earnings, dividends paid and share issues of the year, shareholders' equity rose 8.6% to $180.2 million. Long-term debt rose from $10.2 million to $23.2 million due to the use of our revolving term loan to finance part of the expansion of the past year. Adding the current portion of long-term debt, total net indebtedness net of available cash went from $7.1 million, or the equivalent of 4.1% of total invested capital at the end of fiscal 1998, to $23.1 million or 11.4% of total capital as at April 3, 1999. Van Houtte therefore maintains an excellent financial position to pursue its expansion in North America.

Outlook, Requirements and Sources of Funds for Fiscal 1999-2000
Van Houtte remains committed to its objective of increasing earnings per share by at least 15%, even though we have planned somewhat higher expenses than previous years in the areas of marketing, customer service and training. As in the past, our business growth will be built largely upon internal development, consistent with our two major strategic goals: the expansion of single-cup coffee services in North America and the marketing of gourmet coffees across Canada.

In the first sector, in addition to the recent acquisitions, we will count on the productivity gains generated by our Single-Cup Sales Academy and the marketing, on a broader scale, of the Barista Express and Caffe Mondo program. In the second sector, growth will stem mainly from the numerous developments achieved over the past 12 months including the Gold Cup and Gérard Van Houtte acquisitions, as well as the gradual penetration of the Canadian market by our Coffee Group.

We will continue to invest in our long-term growth through the purchase of new fixed assets, to which we will allocate approximately $24 million in 1999-2000, and by means of business acquisitions.

We believe that our cash flow will be sufficient to finance most of the funding requirements encountered in the normal course of business for the current fiscal year, including the pursuit of our internal growth, debt service and remuneration of our shareholders. As for the acquisition opportunities

that will undoubtedly arise, it should be pointed out that Van Houtte has a total of close to $48 million in unused credit facilities with its major lenders, unsecured and without any principal repayment clauses.

Dividend Policy

Van Houtte intends to maintain the dividend policy as established by the Board of Directors. This policy consists in determining at mid-year the appropriateness of paying a dividend and, if so, the amount of such dividend based on the Company's financial position and investment plans. A dividend of $0.14 per share was paid for fiscal 1999 ($0.10 in 1998).

Year 2000 Compliance of Information Systems

A number of measures have been taken to ensure the efficient transition of Van Houtte's information systems to the Year 2000. In 1998, an exhaustive inventory of the systems was conducted in each of the subsidiaries, whose operations encompass manufacturing, distribution, retailing and coffee services.

Approximately 80% of the information systems and software programs necessitating changes have now been adapted or replaced so they are Year 2000 compliant. More than half of the subsidiaries and divisions have conducted simulation tests that have proven satisfactory on their systems, and other simulations should be completed during the summer of 1999. In addition, the electronic commerce (EDI) system in place with some of our customers should be converted and tested by the end of the summer.

We have also asked our principal suppliers to confirm that they will be able to continue providing the goods and services needed for our operation beyond January 1, 2000. Other certification requests have been sent to major customers to ensure that business relations are not disrupted. However, although certain assurances are expected to be obtained from most business partners, and considering that it is impossible to obtain absolute certainty as to their actual Year 2000 readiness, we have drawn up emergency measure scenarios to mitigate against any failure on the part of one or more business partners. As a result, coffee and equipment production inventories will gradually increase until December 31, 1999 to ensure the continuity of operations beyond that crucial date. Other emergency measures would be developed during the summer of 1999 so we can count on back-up resources or sources of services and thereby avoid any critical risk of interdependency.

Based on our assessment of the current situation and the plans we have adopted with regard to the critical systems, and subject to the risks set out above, it appears unlikely that the changeover of our information systems to the Year 2000 would have a negative impact on the Company's various operations. Moreover, the costs incurred to date are not significant and, considering the fact that most of the work related to the conversion, tests and emergency plans is finished, we should not have to outlay any additional material amounts between now and the end of 1999.

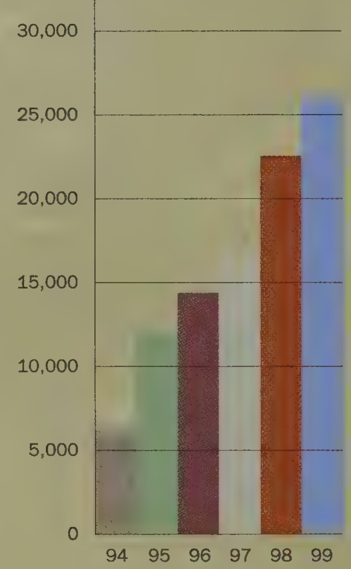
Gérard Geoffrion

Gérard Geoffrion
Executive Vice-President

July 1999

Over the past five years, Van Houtte has invested almost $220 million in its expansion: $94 million in fixed assets and $126 million in business acquisitions.

Number of Corporate-owned Single-cup Units at Year-end



MANAGEMENT'S REPORT

The consolidated financial statements contained in this annual report have been prepared in accordance with generally accepted accounting principles and the integrity and objectivity of the data in these financial statements are management's responsibility. All other information in the annual report is consistent with the information and data contained in the financial statements.

In support of its responsibility, management maintains a system of internal control to provide assurance as to the reliability of financial information and the safeguarding of assets. The Board of Directors is responsible for the financial statements. Its Audit Committee reviews the contents of the financial statements prior to their approval by the Board of Directors.

The external auditors, KPMG, conduct an independent examination in accordance with generally accepted auditing standards and express their opinion on the financial statements. Their report is presented below.

Gérard Geoffrion

Paul-André Guillotte
President and Chief Executive Officer

Gérard Geoffrion
Executive Vice-President

May 21, 1999

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of A.L. Van Houtte Ltée as at April 3, 1999 and March 28, 1998 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 3, 1999 and March 28, 1998 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada
May 21, 1999

Consolidated Statements of Earnings

Years ended April 3, 1999 and March 28, 1998
(In thousands of dollars, except for earnings per share data)

	1999	1998
Revenues	**$234,614**	$207,067
Cost of goods sold and operating expenses (Note 2a)	**185,612**	166,657
	49,002	40,410
Depreciation and amortization	**19,664**	15,637
	29,338	24,773
Financial expenses (Note 2b)	**1,278**	1,205
Income before the undernoted items	**28,060**	23,568
Income taxes (Note 3):		
Current	**9,721**	8,708
Deferred	**1,313**	384
	11,034	9,092
	17,026	14,476
Equity in net earnings of companies subject to significant influence	**56**	31
Non-controlling interest	**(52)**	(555)
Net income	**$ 17,030**	$ 13,952
Earnings per share	**$ 0.79**	$ 0.71
Diluted earnings per share	**$ 0.79**	$ 0.68
Average number of shares outstanding (in thousands)	**21,617**	19,279

See accompanying notes to consolidated financial statements.

For reference only - unaudited:

Filterfresh network revenue	**US$ 63,509**	US$ 61,429

Consolidated Statements of Retained Earnings

Years ended April 3, 1999 and March 28, 1998
(In thousands of dollars)

	1999	1998
Retained earnings, beginning of year	**$ 43,746**	$ 33,509
Net income	**17,030**	13,952
	60,776	47,461
Dividends	**3,027**	1,936
Interest on equity element of convertible debentures (net of income taxes of $134)	**–**	251
Share issue expenses (net of related taxes of $8) (Note 9)	**12**	1,528
Retained earnings, end of year	**$ 57,737**	$ 43,746

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

April 3, 1999 and March 28, 1998
(In thousands of dollars)

	1999	1998
Assets		
Current assets:		
Cash	$ 835	$ 4,749
Accounts receivable	26,626	21,874
Inventories (Note 4)	19,211	17,562
Prepaid expenses	2,395	1,585
	49,067	45,770
Investments (Note 5)	3,646	2,264
Fixed assets (Note 6)	98,981	85,104
Other assets (Note 7)	81,801	73,342
	$233,495	$206,480
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 23,110	$ 24,624
Income taxes payable	653	553
Current portion of long-term debt (Note 8)	754	1,611
	24,517	26,788
Long-term debt (Note 8)	23,217	10,206
Deferred income taxes	3,134	1,829
	50,868	38,823
Non-controlling interest	2,417	1,709
Shareholders' equity:		
Capital stock (Note 9)	122,473	122,202
Retained earnings	57,737	43,746
	180,210	165,948
Commitments (Note 10)		
Contingencies (Note 11)		
	$233,495	$206,480

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Paul-André Guillotte
Director

Christian Pouliot
Director

Consolidated Statements of Changes in Financial Position

Years ended April 3, 1999 and March 28, 1998
(In thousands of dollars)

	1999	1998
Cash provided by (used for):		
Operations:		
Net income	**$ 17,030**	$ 13,952
Items not involving cash:		
Depreciation of fixed assets	**17,280**	13,945
Amortization of other assets	**2,384**	1,692
Amortization of deferred financing costs	**–**	38
Deferred income taxes	**1,313**	384
Non-controlling interest	**52**	555
Equity in net earnings of companies subject to significant influence, net of dividends received	**(32)**	(13)
Loss (gain) on disposal of fixed assets	**(297)**	36
Gain on sale of businesses	**(281)**	–
Loss on write-off of other assets	**–**	174
Interest on the equity element of convertible debentures (net of income taxes)	**–**	(251)
	37,449	30,512
Change in non-cash operating working capital	**(7,048)**	(1,784)
	30,401	28,728
Investment:		
Business acquisitions, net of cash (note 12)	**(13,188)**	(43,058)
Additions to fixed assets	**(29,878)**	(23,045)
Proceeds from disposal of fixed assets	**1,213**	1,530
Proceeds from disposal of an investment	**691**	–
Increase in other assets	**(1,795)**	(677)
Acquisitions of investments	**(628)**	(991)
	(43,585)	(66,241)
Financing:		
Conversion of convertible debentures	**–**	(21,414)
Issue of subordinate shares (net of issue expenses)	**251**	71,298
Increase in (repayment of) long-term debt	**12,154**	(6,453)
Dividends	**(3,027)**	(1,936)
Investment by non-controlling shareholders in a subsidiary	**49**	85
Dividends to non-controlling shareholders	**(157)**	(56)
	9,270	41,524
Increase (decrease) in cash position	**(3,914)**	4,011
Cash position, beginning of year	**4,749**	738
Cash position, end of year	**$ 835**	$ 4,749

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended April 3, 1999 and March 28, 1998
(Tabular amounts are expressed in thousands of dollars)

1. Significant accounting policies:

(a) Consolidation and long-term investments:

The consolidated financial statements include the accounts of A.L. Van Houtte Ltée and all its subsidiaries (the "Company"). The major subsidiaries are Red Carpet Food Systems Inc., Selena Coffee Inc., Filterfresh Corporation, VKI Technologies Inc., Gold Cup Coffee Company Ltd., Les Cafés Orient Express Ltée and Selena Coffee Ltd.

Investments in companies subject to significant influence are recorded on an equity basis and include the share of retained earnings since acquisition.

(b) Inventories:

Raw materials are stated at the lower of cost, based on the first in, first out method, and replacement value. Finished goods and work in process are stated at the lower of average cost and net realizable value.

Raw materials are accounted for at the purchase price set out under the terms and conditions of forward contracts.

(c) Fixed assets:

Fixed assets are stated at cost, net of any investment tax credits which are accounted for when qualified expenditures are incurred. Interest expense and other direct costs relating to major capital projects are capitalized to the cost of fixed assets until the commercial production stage.

Depreciation is calculated using the following methods and rates:

Asset	Method	Rate
Coffee service equipment and vending machines	Declining balance	16.67%
Other fixed assets	Straight-line	3% to 33%
Leasehold improvements	Straight-line	Term of lease

(d) Goodwill and other assets:

Goodwill, which represents the excess of the purchase price over the fair value of net assets of businesses acquired, is amortized over a period ranging from 10 to 40 years. The Company reviews the recoverability of goodwill on a regular basis by determining whether the unamortized value can be recovered through projected future undiscounted cash flows of the business acquired. Any permanent decline in the book value of goodwill is charged to income.

Other assets, which include deferred charges, are amortized over a period ranging from 3 to 10 years.

(e) Foreign currency translation:

Foreign operations of the Company are considered integrated foreign operations. Accordingly, their transactions and Canadian transactions in foreign currencies are translated using the temporal method. Under this method, monetary items denominated in foreign currencies are translated into Canadian dollars at year-end rates, whereas non-monetary items are translated at rates prevailing at the transaction dates.

Revenue and expenses, other than depreciation which is translated at the rate applicable to the related asset, are translated at rates prevailing at the related transactions' dates. Translation gains or losses are charged to income, except for gains or losses arising from the translation of long-term liabilities, which are deferred and amortized over the remaining life of the related debt.

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements as well as the revenue and expenses for the year. Actual results could differ from those estimates.

2. Information on earnings:

(a) Cost of goods sold and operating expenses:

During the year, the Company received government grants of $577,762 with respect to its research and development activities. This amount was charged against the cost of goods sold and operating expenses for the year.

(b) Financial expenses:

	1999	1998
Interest on long-term debt	**$1,242**	$ 973
Interest related to debt component of convertible debentures	**–**	(42)
Interest on short-term borrowings	**36**	236
Amortization of deferred financial expenses	**–**	38
	$1,278	$1,205

Years ended April 3, 1999 and March 28, 1998
(Tabular amounts are expressed in thousands of dollars)

3. Income taxes:

The following table reconciles the statutory tax rate with the effective tax rate:

	1999	1998
Combined statutory tax rate	39.0%	38.6%
Manufacturing and processing deduction	(1.4)	(1.8)
Amortization of goodwill	1.2	2.9
Non-deductible expenses	0.3	0.4
Other items	0.2	(1.5)
Effective tax rate	39.3%	38.6%

4. Inventories:

	1999	1998
Raw materials	$ 4,830	$ 5,301
Work in process	1,075	719
Finished goods	13,306	11,542
	$19,211	$17,562

5. Investments:

	1999	1998
Shares in companies subject to significant influence, voting and participating	$ 1,411	$ 688
Advance to companies subject to significant influence	2,235	1,576
	$ 3,646	$ 2,264

6. Fixed assets:

			1999
	Cost	Accumulated depreciation	Net book value
Land	$ 1,192	$ –	$ 1,192
Buildings	10,041	1,918	8,123
Coffee service equipment and vending machines	109,616	48,229	61,387
Machinery and equipment	24,552	12,148	12,404
Furniture, computer equipment and leasehold improvements	18,455	8,333	10,122
Automotive equipment	10,880	5,127	5,753
	$174,736	$75,755	$98,981

			1998
	Cost	Accumulated depreciation	Net book value
Land	$ 1,192	$ –	$ 1,192
Buildings	7,702	1,631	6,071
Coffee service equipment and vending machines	95,289	39,679	55,610
Machinery and equipment	20,337	10,442	9,895
Furniture, computer equipment and leasehold improvements	12,950	5,830	7,120
Automotive equipment	9,086	3,870	5,216
	$146,556	$61,452	$85,104

7. Other assets:

	1999	1998
Goodwill, at amortized cost	$80,587	$72,694
Other assets, at amortized cost	1,214	648
	$81,801	$73,342

(Tabular amounts are expressed in thousands of dollars)

8. Long-term debt:

	1999	1998
Revolving term loan, expiring on August 31, 2000, extendable annually for a one-year term. As at August 31, 2000 or at the end of the last extension term, 50% of the capital is repayable in 5 equal annual instalments and the outstanding balance is payable at the end of the fifth year. The revolving loan may be used as bankers' acceptances, fixed rate advances or advances at prime rate. Certain shares of the subsidiaries have been pledged.	**$17,362**	$ 4,218
Mortgage loan, 11.75%, repayable in blended monthly instalments of $17,788 until November 1, 2003, including principal and interest, secured by land and building having a net book value of $4,205,000	**1,661**	1,684
Mortgage loan, 10.88%, repayable in blended monthly instalments of $15,114 until May 1, 2002, including principal and interest, secured by land and building having a net book value of $1,509,000	**981**	1,059
Due to non-controlling shareholders (US$1,400), bearing interest at 12%, expiring on December 31, 2002	**2,105**	2,002
Due to a company subject to significant influence, without interest or specific terms of repayment	**–**	244
Other	**1,862**	2,610
	23,971	11,817
Less current portion	**754**	1,611
	$23,217	$10,206

In accordance with the terms of various borrowing agreements and given the refinancing activities projected by management, the Company will make the following repayments over the next five years, as follows:

2000	$ 754
2001	601
2002	337
2003	2,417
2004	1,717

9. Capital stock:

	1999	1998
Authorized:		
Unlimited number of multiple voting shares with voting rights of five votes per share, participating and without par value		
Unlimited number of subordinate voting shares with voting right of one vote per share, participating and without par value		
Unlimited number of Classes A and B preferred shares, issuable only in series, non-voting and without par value		
Issued and paid:		
5,800,000 multiple voting shares	**$ 387**	$ 387
15,824,526 subordinate voting shares (15,785,026 shares in 1998)	**122,086**	121,815
	$122,473	$122,202

(a) Share Issue:

During the year, 39,500 subordinate voting shares were issued upon the exercise of stock options, for a consideration of $271,000.

(b) Stock option plan:

Under a stock option plan, 1,650,000 subordinate voting shares were reserved for certain executives of the Company. As at April 3, 1999, 1,353,400 stock options had been granted at prices ranging from $5.40 to $30.75 per share, with expiry dates from March 2002 to March 2009.

(c) Employee share ownership plan:

Under this plan, subordinate voting shares are purchased at recurrent investment dates at prevailing market prices. Since the creation of this plan, 1,397 shares were issued at an average price of $28.92.

(Tabular amounts are expressed in thousands of dollars)

10. Commitments:

Leases:

The Company leases premises and equipment under operating leases which expire at various dates until 2009 and for which gross rents total $20,731,000. Of this amount, a portion of $6,887,000 is assumed by the franchisees of the Company. Annual payments under these leases for the next five years are as follows:

	Gross	Franchisees	Net
2000	$4,867	$1,367	$3,500
2001	4,074	1,140	2,934
2002	3,254	994	2,260
2003	2,702	927	1,775
2004	2,107	895	1,212

11. Contingencies:

The Company is involved in various lawsuits and claims. Management and the Company's legal counsels are of the opinion that the resolution of these claims would have no material impact on the Company's financial position or results.

12. Business acquisitions:

During the year, the Company acquired all of the issued and outstanding shares of Gold Cup Coffee Company Ltd. as well as certain assets and working capital of other coffee service businesses for a total cash consideration of $11,865,000. The acquisition of Gold Cup Coffee Company Ltd. allows for the purchase price to be increased subject to a maximum, cumulative earn-out provision of $5,327,000 by the end of fiscal year 2001, based on a pre-determined formula at the time of the acquisition. Potential increases for the years ending from 1999 to 2001 cannot be determined, but will be charged to goodwill if they are recognized at these dates.

The acquisitions are summarized as follows:	
Assets acquired:	
Cash deficiency	$ (1,323)
Non-cash operating working capital	1,577
Investments	722
Fixed assets	2,384
Goodwill	8,747
	12,107
Non-controlling interest	242
Net assets acquired at fair value	$11,865

13. Financial instruments:

(a) Foreign exchange risk:

The Company makes some of its purchases in US dollars and enters into various types of foreign exchange forward contracts in order to manage its foreign exchange risk. The Company does not hold nor issue such financial instruments for trading purposes. As at April 3, 1999 and March 28, 1998, the amount of these contracts was not material and their fair value approximated their book value.

The Company does not anticipate any default on obligations from the counterparties to these contracts as they are financially-sound Canadian banks.

(b) Credit risk:

The Company does not have a significant exposure to any individual customer nor counterparty. The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors such as the credit risk for specific customers, historical trends and other information.

(c) Fair value of financial instruments:

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates their fair value because of the near-term maturity of these instruments. The fair value of the amount due to non-controlling shareholders approximates its carrying value. The carrying value of the term loan approximates its fair value, as the credit agreement was renewed during the year and the interest rate varies based on market rate. The fair value of mortgage loans, calculated at the value of contractual future payments of principal and interest, discounted at the current market rate of interest available to the Company for the same type of debt instrument, is $3,056,351 (1998 – $3,238,207).

(Tabular amounts are expressed in thousands of dollars)

14. Segmented information:

The Company operates in the following two segments:

(a) coffee roasting and marketing through the Coffee Group and Café-Bistro Division;

(b) coffee service, vending machine service and coffee equipment manufacturing.

Segment income includes income from sales to third parties and intersegment sales. These sales are accounted for at prevailing market prices.

	1999	1998
Business segments		
Revenues:		
Roasting and marketing	**$ 84,402**	$ 77,288
Coffee service	**168,188**	147,097
Intersegment	**(17,976)**	(17,318)
	$234,614	$207,067
Operating income before depreciation and amortization and financial expenses:		
Roasting and marketing	**$ 13,586**	$ 10,601
Coffee service	**37,481**	31,345
	51,067	41,946
General corporate expenses	**(2,065)**	(1,536)
	$ 49,002	$ 40,410
Assets:		
Roasting and marketing	**$ 64,105**	$ 45,088
Coffee service	**177,118**	165,134
Intersegment	**(7,728)**	(3,742)
	$233,495	$206,480
Additions to fixed assets:		
Roasting and marketing	**$ 9,446**	$ 6,401
Coffee service	**20,357**	16,644
	$ 29,803	$ 23,045
Depreciation and amortization:		
Roasting and marketing	**$ 3,507**	$ 2,280
Coffee service	**16,157**	13,357
	$ 19,664	$ 15,637
Geographic segments		
Revenues generated by operations:		
Canada	**$190,822**	$178,530
United States	**41,037**	26,216
Other countries	**2,755**	2,321
	$234,614	$207,067
Capital assets:		
Canada	**$ 81,847**	$ 73,106
United States	**17,134**	11,998
	$ 98,981	$ 85,104

15. Uncertainty due to the Year 2000 issue:

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

16. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

CORPORATE INFORMATION

DIRECTORS

Pierre Van Houtte
Chairman of the Board
A.L. Van Houtte

Paul-André Guillotte [1]
President and
Chief Executive Officer
A.L. Van Houtte

Benoît Beauregard
Vice-Chairman of the Board
A.L. Van Houtte

Pierre-Luc Van Houtte
Secretary
A.L Van Houtte
President
Les Confiseries Le Farfadet

Christian Pouliot
President
Selena Coffee Inc.

Jocelyne Pelchat
President
Entreprise Pelchat Moïse Inc.

Michel Ouellet
Vice-President
Selena Coffee Inc.

Yvon Julien [1] [2]
Director of Companies

Jean Douville [2]
Chairman and
Chief Executive Officer
UAP Inc.

Jean Chagnon [1] [2]
President
Lallemand Inc.

(1) Member of the Audit Committee
(2) Member of the Compensation and Corporate Governance Committee

OFFICERS

A.L. VAN HOUTTE

Paul-André Guillotte
President and
Chief Executive Officer

Gérard Geoffrion
Executive Vice-President

Jean-Yves Monette
President, Coffee Group

Stéphane Breault
President,
Café-Bistro Division

SELENA COFFEE INC.

Christian Pouliot
President

Michel Ouellet
Vice-President

Michel Jacques
Vice-President,
Sales and Marketing

FILTERFRESH CORPORATION

Christian Pouliot
Chairman of the Board and
Chief Executive Officer

Brian King
President and
Chief Operating Officer

RED CARPET FOOD SYSTEMS INC.

Ronald W. McArthur
President

John Earley
Chief Operating Officer
(Eastern Canada)

Rob Mann
Chief Operating Officer
(Western Canada)

R. Paul Runstedler
Vice-President,
Merchandising

VKI TECHNOLOGIES INC.

Mario Tougas
President

Sylvie Gervais
Vice-President,
Human Resources

Angelo Motillo
Vice-President,
R&D and Engineering

Ricardo Tozzi
Vice-President,
Operations

BANKING INSTITUTIONS

Scotia Bank
Royal Bank of Canada

TRANSFER AGENT

Montreal Trust

AUDITORS

KPMG LLP

FINANCIAL COMMUNICATIONS

Lefebvre Financial
Communications Inc.

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The Annual General Meeting of Shareholders will be held on September 14, 1999 at 11:00 a.m., Omni Hotel, Room Saisons A
1050 Sherbrooke Street West, Montreal, Quebec.

A.L. Van Houtte's Annual Information Form for the fiscal year ended April 3, 1999 will be available at the Head Office of the Company as of August 20, 1999.

Ce rapport annuel est également disponible en français.

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